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Organic Products

Developments in the Russian Organics Market

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Report Highlights:

Demand for organics increased 21 percent in Moscow from 2000 to 2005. Organic products typically account for two to five percent of supermarket sales and cost 20 to 50 percent more than their conventional equivalents. The Russian government recently created Russia's first national organic standard, and many retailers expect a national certification process to follow. They anticipate that a national certification process would stimulate local production and demand for organic products. Retailers estimate that Russian organics will sell for about half the price of imported organics. The most promising products for Russian organic production include dairy, wild berries, game meat, mushrooms, herbs, and grain. If other countries accept Russia's standard as equivalent to their own national organic standards, Russian exports could increase.

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Executive Summary

Russia's organics market is quickly expanding. From 2000 to 2005, the number of consumers willing to pay more for organics increased 21 percent in Moscow and 10 percent nationwide. Urban Russians are increasingly health conscious, and they are willing to spend their rising incomes on organic products for themselves and their children. Organic products typically cost 20 to 50 percent more than their conventional equivalents, and they account for two to five percent of supermarket sales.

The Russian government recently created the country's first national organic standard and many retailers expect a national certification process to follow.¹ They anticipate that a national certification process would stimulate local production and demand for organic products. Retailers estimate that Russian organics would sell for about half the price of imported organics. The most promising products for Russian organic production include dairy, wild berries, game meat, mushrooms, herbs, and grain. If other countries such as the United States, the European Union, and Japan accept Russia's standard as equivalent to their own national organic standards, Russian exports could increase.

Domestic Demand for Organics

Many Russian consumers are interested in buying organic products. In 2005 the Comcon Company, a market research firm, found that 56 percent of urban Russians were prepared to pay more for "eco" products, a vague term that refers to pesticide-free, healthy food.² Since the urban population was 103.8 million in 2007, roughly 50 million people might potentially be interested in organic products. Willingness to pay more for healthy food ranged from 37 percent of low-income respondents to 78 percent of high-income respondents. In October 2005 CVS Consulting, a marketing and communications agency, found that 65 percent of patrons of large Moscow supermarkets refused to buy products containing preservatives. Fifty percent of respondents refused to buy products containing chemical additives, and 33 percent preferred to avoid food produced using biotechnology.

Demand for organics is increasing. According to the Comcon Company, the number of consumers willing to pay more for organics increased 21 percent in Moscow and 10 percent nationwide from 2000 to 2005.

Supermarkets are making decisions that reflect this rising demand for organic products. Grunwald, Moscow's only all-organic store, plans to open a second outlet in the middle of Moscow and a third in an upscale suburban location. Globus Gourmet, a high-end supermarket with stores in Moscow and St. Petersburg, intends to expand to Russian cities with populations over one million.

¹ The Federal Service for Protection of Consumer Rights and Human Well-Being (Rospotrebnadzor), an agency of the Russian federal government, recently defined the hygienic requirements for organic food products. See RS8045 SanPiN for Organic Products for more information.

² Comcon polled residents of 75 Russian cities with populations over 100,000.

Profile of Organics Consumers

In the past, most Russian consumers were too price-sensitive to purchase organic products. Today, however, rising incomes have created a new group of people willing to pay more for healthy products. The Comcon Company found that the largest consumers of "eco" products are:

- ? between the ages of 25 and 45;
- ? highly educated;
- ? middle class; and
- ? residents of Moscow or St. Petersburg.

The following are influencing factors for consumers of organic products:

- ? greater disposable income;
- ? concern for their health and fitness;
- ? concern for their children's health;
- ? reduced level of free medical services;
- ? negative publicity about biotech ingredients in food;
- ? negative publicity about unhealthy ingredients in packaged food;
- ? negative publicity about the use of chemicals in traditional agriculture; and
- ? publicity from Western cultures that brands an organic lifestyle as "fashionable."

Expatriates living in Russia significantly contribute to demand for organics. Ten percent of Grunwald shoppers are expatriates.

Supply of Organic Products

Russia imports the vast majority of organic products sold domestically. According to Vitrina Publishing House, the number of distributors and importers of organic products rose from 10 in 2004 to 40 in 2005. Some Russian producers export organic products, but Grunwald considers their supply too inconsistent to sell in its Moscow store. The majority of organic products at Grunwald and Globus Gourmet are imported from E.U. countries, particularly Germany, the United Kingdom, France, and Belgium. Grunwald carries U.S. beauty products, and Globus Gourmet carries U.S. beauty products and U.S. tea.

The ARMI-Marketing Agency found that 74 percent of consumers who buy organic products purchase them in supermarkets, 13 percent in specialized stores, and 13 percent in pharmacies.

Supermarkets

Supermarkets carry a wide range of organic products, often in a special section of the store. On average, organic products occupy one to three percent of shelf space. Two to five percent of Globus Gourmet customers shop there specifically for organic products, and that number is increasing. Those consumers purchase a typical amount of products, accounting for two to five percent of total sales.

Specialty Stores

Grunwald is Moscow's only all-organic store. Eighty percent of people who shop at Grunwald do so specifically because the products are organic. Grunwald carries a wide variety of goods, including produce, meat, handmade chocolates, packaged grocery items, and beauty products. This sector has tremendous growth potential in Russia. Berlin, for example, has a population of three million that supports 360 all-organic stores. By contrast, Moscow is the

largest city in Europe with a population of 10.47 million (according to official statistics)³ and has just one such store.

Pharmacies

Pharmacies carry a more limited range of organic products. They often have organic diabetic products, low-calorie products, baby food, juices, soft drinks, and cosmetics.

Fitness Clubs

Fitness clubs offer an extremely limited variety of organic products. These include organic candies, cakes, cookies, juices, and tea. Many patrons purchase these products for use at home.

Price Survey

Prices for organic products are significantly higher than for conventional goods. According to Globus Gourmet, organics in Russia are typically 20 to 50 percent more expensive than their conventional equivalents.

FAS Moscow conducted this price survey in Moscow during July 2008. The survey compares the prices of organic products at Grunwald and Globus Gourmet to the prices of conventional products at Ramstor and Kruglosutochno supermarkets. Grunwald and Globus Gourmet are both exclusive outlets that emphasize quality and customer service. Kruglosutochno is a moderately expensive supermarket, while Ramstor specializes in affordability.

The selected organic products range from 14 percent to 850 percent more expensive than their conventional equivalents. Store characteristics and whether the products were imported contribute to the drastic price differences. For example, imported organic milk at an exclusive supermarket is 447 percent more expensive than domestic conventional milk at a moderately priced supermarket.

Table 1 shows the prices of selected organic products at Grunwald and Globus Gourmet, including prices for all available U.S. goods. Table 2 shows the prices of comparable conventional products at Ramstor and Kruglosutochno. Table 3 outlines the price differences between the surveyed products.

³ It is estimated that Moscow's population approaches 15 million when unregistered and illegal residents are included.

Table 1. Russia: Prices of Selected Organic Products

Product	Country of Origin	Producer	Store	Quantity	Cost (\$)
Milk	Germany	Söbbeke	Grunwald	1 liter	10.84
Apples (pre-packaged)	Germany	Unknown	Grunwald	6 pieces	18.42
Plums (pre-packaged)	Spain	Unknown	Grunwald	12 pieces	28.32
Potatoes (pre-packaged)	Germany	Unknown	Grunwald	10 pieces	14.44
Tomatoes (pre-packaged)	Italy	Unknown	Grunwald	6 pieces	14.87
Yellow Peppers (pre-packaged)	Germany	Unknown	Grunwald	2 pieces	38.13
Breakfast Tea	U.S.	Revolution	Globus Gourmet	30 g	16.72
Earl Grey Tea	U.S.	Revolution	Globus Gourmet	30 g	16.25
Green Tea	U.S.	Revolution	Globus Gourmet	44 g	25.12
Body Lotion	U.S.	Duchy Collection	Grunwald	250 ml	41.43
Body Lotion	U.S.	Erbaviva	Grunwald	175 ml	45.11
Body Wash	U.S.	Duchy Collection	Grunwald	250 ml	41.43
Body Wash	U.S.	Erbaviva	Grunwald	175 ml	40.10
Body Wash	U.S.	Duchy Collection	Grunwald	250 ml	41.43
Conditioner	U.S.	Aubrey	Globus Gourmet	118 ml	24.69
Rejuvenating Eye Cream	U.S.	Aubrey	Grunwald	15 ml	62.98
Shampoo	U.S.	Duchy Collection	Grunwald	200 ml	41.43
Shampoo	U.S.	Aubrey	Grunwald	325 ml	28.06
Shampoo	U.S.	Aubrey	Globus Gourmet	325 ml	27.18
Shampoo	France	Coslys	Grunwald	500 ml	43.78
Shampoo	Germany	Logona	Grunwald	250 ml	21.21
Shaving Cream	U.S.	Aubrey	Grunwald	177 ml	21.85
Shaving Cream	U.S.	Aubrey	Globus Gourmet	177 ml	24.69

Table 2. Russia: Prices of Selected Conventional Products

Product	Producer	Store	Quantity	Cost (\$)
Milk	Ostankinskoye	Ramstor	1 liter	1.50-2.01
Milk	Ostankinskoye	Kruglosutochno	1 liter	2.43
Apples (pre-packaged)	Unknown	Ramstor	6 pieces	4.27-5.13
Plums (pre-packaged)	Unknown	Kruglosutochno	7 pieces	14.52
Potatoes (pre-packaged)	Unknown	Kruglosutochno	16 pieces	4.27
Tomatoes (pre-packaged)	Unknown	Ramstor	6 pieces	7.69
Yellow Peppers (pre-packaged)	Unknown	Kruglosutochno	2 pieces	12.09
Breakfast Tea	Greenfield	Kruglosutochno	50 g	3.63
Earl Grey Tea	Ahmad Tea	Ramstor	50 g	2.01
Earl Grey Tea	Lipton	Ramstor	37.5 g	2.48
Green Tea	Ahmad Tea	Ramstor	50 g	2.14
Green Tea	Ahmad Tea	Kruglosutochno	40 g	3.29
Body Lotion	Dove	Ramstor	250 ml	9.83
Body Wash	Dove	Ramstor	250 ml	4.70
Body Wash	Palmolive	Ramstor	250 ml	3.84
Body Wash	Palmolive	Kruglosutochno	250 ml	5.25
Shampoo	Pantene	Ramstor	200 ml	3.67
Shampoo	Dove	Ramstor	200 ml	4.66

Table 3. Russia: Price Differences between Selected Organic and Conventional Products

Product	Average Organic Price (\$)	Average Conventional Price (\$)	Unit	Average Price Difference
Milk	10.84	1.98	per liter	447%
Apples (pre-packaged)	3.07	0.78	per apple	294%
Plums (pre-packaged)	2.36	2.07	per plum	14%
Potatoes (pre-packaged)	1.44	0.27	per potato	433%
Tomatoes (pre-packaged)	2.48	1.28	per tomato	94%
Yellow Peppers (pre-packaged)	19.07	6.05	per pepper	215%
Breakfast Tea	0.56	0.07	per gram	700%
Earl Grey Tea	0.54	0.06	per gram	800%
Green Tea	0.57	0.06	per gram	850%
Body Lotion	0.21	0.04	per ml	425%
Body Wash	0.19	0.02	per ml	850%
Shampoo	0.11	0.02	per ml	450%

Future Developments

While the Russian government recently created a national organic standard, there is not yet a domestic organic-certification process. Currently, Russian producers can be voluntarily certified by Western inspection companies on the basis of other countries' standards. They may elect to be certified under E.U., U.S., or Japanese standards, depending on the intended export market. If Russia creates national certification bodies, the domestic and export markets for Russian organics may profoundly change.

Effects of the Proposed Certification Process

Effect on Imports

If the Russian government creates a national certification process, Russian organics will be significantly less expensive than imported organics. Globus Gourmet's organics expert expects to sell organic Russian dairy, fruit, and vegetables for half the price of imported organics. According to Grunwald's General Director and part-owner, Yevgeniy Trostentsov, organic Russian milk will be three times less expensive than the organic milk it currently imports from Germany. He believes that locally produced organic products – across the board – will sell for half the price of the items currently imported.

As Russian suppliers enter the organics market, foreign organic producers will need to lower their prices to remain competitive. Otherwise, they will risk losing their market share, and imports will fall. This will negatively affect many E.U. organic exports because they currently dominate the market. The U.S., however, exports primarily organic tea and organic beauty products. Since Russia does not seem poised to produce these products, U.S. producers will not face new competition.

Two major factors will make Russian organics less expensive than imported organics. Logistical barriers to importation are the first factor. Globus Gourmet cites logistics as the largest impediment to importing E.U. organics. The second factor is the cost of certification. International inspection bodies charge higher fees than domestic certifiers. In Chile, for example, the local certifier (CCO) charges individual producers \$187 per day per inspector, excluding travel and subsistence costs, while Argencert, an Argentinean certifier, charges \$450. IMO, a Swiss certifier, charges \$480.⁴ IMO and Demeter, a German certifier, are the two international certification bodies currently operating in Russia. Globus Gourmet and Grunwald both contend that domestic certification will be significantly less expensive.

The high cost of international inspection has deterred some producers from becoming certified, including vegetable-producer Belaya Dacha and milk-producer Russkoe Moloko. Many domestic producers will likely switch to organic production once less-expensive domestic certification becomes available. Several producers of all types of poultry have already started producing organically. Grunwald has signed forward-contracts with several Russian farms, promising to purchase their certified organics if they follow organic production standards. Foreigners are also producing organics in Russia. Grunwald has contracts with one German milk manufacturer and one Russian/German pork and beef producer, pending domestic certification.

⁴ Marian Garcia Martinez and Felipe Bañados, "Impact of EU Organic Product Certification Legislation on Chile Organic Exports," *Food Policy* 5 Mar. 2004, 5 Aug. 2008
<http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VCB-4BVSPB-2&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&view=c&_acct=C000050221&_version=1&_urlVersion=0&_u serid=10&md5=b05cfb458d6d901dbaa9596b3d2acc46>.

Globus Gourmet expects to sell organic Russian dairy, fruits, and vegetables. In September, Grunwald will carry organic Russian milk, bread, and meat.

Effect on Exports

The content of Russia's new regulations will significantly determine their effect on Russian organic exports. The E.U., the U.S., and Japan all have different organic standards. For example, the E.U. forbids growing organic and conventional crops on the same farm, while the U.S. does not.⁵ According to the Russian Regional Environmental Centre, Russia's organic standard harmonizes E.U., U.S., and Japanese requirements, which should make Russian organics eligible for export to all three markets.

Product standards are a common technical barrier to trade. If the E.U., the U.S., or Japan rejects Russian standards as non-equivalent, Russian certification will not facilitate organic exports. Consumers and exporters alike will benefit if Russia succeeds in harmonizing the three standards, because consumer preferences do not vary enough to warrant different regulations. According to a 2007 study in the *International Journal of Trade and Global Markets*, "it does not appear that consumers in any of the three countries (the U.K, the U.S., and Japan) have a strong attachment to their current national organic standard."⁶ The study concludes that "these results suggest that the international harmonization of organic standards may well be welfare enhancing."⁷

Determinations of E.U. equivalency may most significantly affect exports. The E.U. is often cited as Russia's primary export market for organics. If the Russian government negotiates an equivalency agreement with the E.U., it will be placed on the E.U.'s List of Third Countries certified for export. As of 2006, only nine countries had made the list: Argentina, Australia, Costa Rica, the Czech Republic, Hungary, India, Israel, New Zealand, and Switzerland.⁸ According to Marian Garcia Martinez and Felipe Bañados, two agricultural experts at the Department of Agricultural Sciences of the Imperial College London, "being a 'listed country' greatly facilitates the exporting process since [it] reduces the level of paperwork and bureaucracy involved in the process."⁹

Several Russian producers already export organic products, and these are the most likely to take advantage of a more streamlined method of organic certification. In 2005, AGROSOFIA identified 30 certified organic Russian farms, mainly in Russia's black earth zone (Kursk, Tula, and Belgorod), Siberia (Omsk and Novosibirsk), north-east Russia (Arkhangelsk City), and southern Russia (Stavropol). Russia exports organic buckwheat, millet, alfalfa, flax, and wildy grown products – including wild berries, mushrooms, cedar nuts, and herbs – to a variety of countries. Russia also exports organic wheat to the E.U.

While the E.U. may hold promise as a destination for imported Russian organics, there are several other potential markets. Canada, for example, already imports organic Russian berries. Japan is currently waiting for certification in order to import organic Russian fish. Since the Russian Far East has land particularly well-suited to organic production, Russia may

⁵Erin N. Sawyer, Jill E. Hobbs, and William A. Kerr, "Is there a global market for organic beef?: Harmonisation and consumer preferences in international trade," *International Journal of Trade and Global Markets* 2007, 5 Aug. 2008 <<http://inderscience.metapress.com/app/home/contribution.asp?referrer=parent&backto=issue,6,6;journal,2,2;linkingpublicationresults,1:120861,1>>.

⁶*Ibid.*

⁷*Ibid.*

⁸*Ibid.*

⁹ Martinez and Bañados, "Impact of EU Organic Product Certification Legislation on Chile Organic Exports," 5 Aug. 2008 <http://www.sciencedirect.com/science?_ob=ArticleURL&_udi=B6VCB-4BVSPB-2&_user=10&_rdoc=1&_fmt=&_orig=search&_sort=d&view=c&_acct=C000050221&_version=1&_urlVersion=0&_uclid=10&md5=b05cfb458d6d901dbaa9596b3d2acc46>.

export to other prosperous Asian countries as well. China, Hong Kong, Malaysia, the Republic of Korea, Singapore, and Thailand are typically cited as the developing Asian economies with significant demand for organics.¹⁰ The U.S. is also a potential market for Russian organics. Several companies in the Russian Far East already export raw material products to the U.S. The head of the Organics Department at one Globus Gourmet store believes that fear of biotech products comingling with U.S. organics may cause U.S. consumers to buy Russian organics.

Effect on Consumers

Experts disagree about the extent to which consumers understand “organic” labels. Grunwald, for example, planned demonstrations for product education after discovering that consumers did not know what “organic” meant. In Globus Gourmet’s experience, however, many consumers already understand the difference between organic products and other products marketed as healthy. In either case, having a national organic standard may increase consumer awareness about organics in general.

More importantly, creating a national certification process may allow consumers to trust product labels. Currently, there is little oversight for producers who use misleading labels. According to CVS Consulting, 38 percent of Moscow consumers do not trust the information on product labels. If the new certification process standardizes and facilitates “organic” labeling, consumers may learn to trust the quality of Russian organics.

¹⁰ Sophia Twarog, “Organic Agriculture: A Trade and Sustainable Development Opportunity for Developing Countries,” Trade and Environment Review (Geneva: United Nations Conference on Trade and Development, 2006) 5 Aug. 2008 <http://www.unctad.org/en/docs/ditcted200512ch3p1_en.pdf>.